



Market Research — Now More Important Than Ever

Procurement reform has provided unprecedented opportunity to improve federal buying. It has also provided the means to undermine effective acquisition. This is because, with so many ready-to-order government-wide contracts (including Federal Supply Schedule contracts), the overwhelming temptation is often to skip past traditional acquisition planning in the haste to issue an order. Procurement reform enables us to buy the wrong product or service faster than ever — *but it doesn't have to be that way*. How can we avoid this mistake? There are two means: business planning (addressed in our last Best-Practices Report) and market research.

What is market research?

Market research is the continuous process of collecting information to maximize reliance on the commercial marketplace and to benefit from its capabilities, technologies, and competitive forces in meeting an agency need.

Why is market research important?

Effective market research makes a knowledgeable and informed buyer who exercises the market's competitive forces to acquire the best products and services at fair and reasonable prices, achieving best value in meeting his or her agency's needs.

When does market research begin?

Market research begins for an acquisition when there is "a description of the Government's needs stated in terms sufficient to allow conduct of market research"¹ — *but not so specific that technological alternatives (and potential competitiveness) are constrained*.

When is market research conducted?

According to FAR Part 10, market research is conducted:

- ◇ *Before* developing new requirements documents for an acquisition;
- ◇ *Before* soliciting offers for acquisitions with an estimated value in excess of the simplified acquisition threshold (defined in FAR Part 2, currently \$100,000); and

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In practice, there are many stages when market research can be useful.

- ◇ *Before soliciting offers for acquisitions with an estimated value less than the simplified acquisition threshold when adequate information is not available and the circumstances justify the cost of market research.*

In addition, the FAR now specifically requires that large FSS orders — those exceeding the schedule's maximum order threshold — should be based on *additional* market research, beyond the minimum review of three schedule contract pricelists.

In practice, there are many stages when market research can be useful. (See illustration at right.) Market research can be conducted as a continuing, ongoing activity in support of agency strategic planning. In such instances, the focus of the research is often on trends and technological advancements that may affect an agency's long-term plans and strategies. This type of research is sometimes called market surveillance. Initial market research related to a specific acquisition helps determine the ability of the marketplace to meet the need with existing (commercial) items of supply. It is important to do such research early, because sometimes agency requirements can be modified slightly to conform to available commercial products — at large savings over design-to-specification requirements. Subsequent market research can support the development of a solicitation that responds to current market conditions and practices, such as warranties, financing, and maintenance. Finally, market research is used prior to contract award to check references and past performance information, and after contract award to monitor the contract's continued acceptability compared to current market offerings and prices. Taken together, these types of market research provide valuable information regarding existing products, current and potential suppliers, desirable technology, marketplace competition, and varying levels of product performance and quality.

What purposes does market research serve?

The primary purpose of market research is to develop the most suitable *approach* (not solution) to acquiring needed supplies and services. This includes (1) ascertaining the availability of commercial and nondevelopmental items that meet the need, and (2) identifying standard commercial practices. This information allows the agency to take advantage of the competitive marketplace.

The mandate for reliance on commercial and nondevelopmental items stems from the Federal Acquisition Streamlining Act (FASA). FASA defined these terms broadly² and created a statutory preference for their acquisition by federal agencies. Nonetheless, there is also a preference for using existing equipment (available for reassignment or use within the agency) and preferred sources of supply (as detailed in FAR Part 8) before initiating new acquisitions. *Therefore, market research should consider both government and industry sources.*

Aren't there prohibitions against contacting vendors before a solicitation is released?

Contact with vendors and suppliers for purposes of market research is now encouraged. In fact, the FAR specifically promotes the exchange of information "among all interested parties, from the earliest identification of a

**Areas of
Focus:
Market
Research
(Not All-
Inclusive)**

	General Capabilities		
	Technologies		Past Performance
New Suppliers	Suppliers	Product Characteristics	Reference Checks
New Products	Competitiveness	Product Differentiation	Contract Modifications
Trends	Cost Drivers	Commercial Practices	Technical Insertion
Emerging Technology	Support Capabilities	Industry Standards	Current Market Costs
Estimating Future Costs	Laws and Regulations	Cost Estimates	Exercising Options
Strategic Planning	Acquisition Planning	Solicitation Development	Contract Award and Administration

Iterative Market Research Activities by Life Cycle

requirement through receipt of proposals.”³ The limitations that apply are that prospective contractors be treated fairly and impartially and that standards of procurement integrity⁴ be maintained.

What is the primary risk in conducting market research?

Selecting a solution prematurely.

What does market research entail?

Market research involves obtaining information related to acquisitions. FAR Part 10 specifically requires determinations of:

- ◇ *Sources* capable of satisfying the requirements and their size and status;
- ◇ *Availability and cost of commercial or nondevelopmental items* that meet or could be modified to meet the requirements — or could meet the requirements if the requirements were reasonably and acceptably modified — or could be incorporated at the component level in developmental requirements;
- ◇ *Standard or customary practices* of firms engaged in producing, distributing, and supporting commercial items, such as terms for warranties, buyer financing, maintenance and packaging, and marking — and for customizing, modifying or tailoring of items to meet customer needs;

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- ◇ Availability of items that use recovered materials or are *energy efficient*;
- ◇ Requirements of *laws and regulations* unique to the item being acquired; and
- ◇ *Distribution and support capabilities* of potential suppliers.

Other information that may be pertinent includes such areas as extent and nature of competition, customer references, past-performance information, market prices and pricing trends, acquisition histories, other organizations' experiences in acquiring the same or similar items, effect of supply and demand or other factors on acquisition timing or product pricing, speed of change in marketplace, risk, production or delivery lead time, and quantity discounts. Other important information is the ability of the market to respond to the total requirement, modularization of the requirement (*consecutive* awards or orders to one or more offerors), segmentation of the requirement (*concurrent* awards to multiple offerors), and the effect of "bundling" or acquisition approach on small businesses.

The extent of market research required for an acquisition varies, depending on such factors as type of supply, urgency of the requirement, estimated dollar value, complexity, and past experience.

Who should be involved in market research?

Because the range of information addressed by market research is so broad — covering technical, cost, and contractual information — responsibility properly belongs to members of the acquisition team, not to the program or technical office alone. This requires that the acquisition team's activities be planned in advance to address the essential requirements and timing of the research, assignment of market research elements to individuals, standard methods of contacting potential suppliers, and standard information to be given and obtained from potential suppliers.

How is market research conducted?

There are many types and sources of information for conducting market research. Techniques for conducting market research may include any or all of the following:

- ◇ Contacting knowledgeable individuals in Government and industry regarding market capabilities to meet requirements.
- ◇ Reviewing the results of recent market research undertaken to meet similar or identical requirements.
- ◇ Publishing formal requests for information in appropriate technical or scientific journals, business publications, or the *Commerce Business Daily*.
- ◇ Querying Government data bases that provide information relevant to agency acquisitions.
- ◇ Participating in interactive, on-line communication among industry, acquisition personnel, and customers.
- ◇ Attending trade shows and receiving capability and "futures" briefings from original equipment manufacturers and developers.

- ◇ Obtaining source lists of similar items from other agencies, contracting activities, trade associations, or other sources.
- ◇ Reviewing catalogs and other generally available product literature published by manufacturers, distributors, and dealers (or available on-line).
- ◇ Conducting interchange meetings or holding presolicitation conferences to involve potential offerors early in the acquisition process.
- ◇ Releasing to industry information on planned acquisitions and draft solicitations.
- ◇ Using technical analysis publications or services, such as Gartner Group, International Data Corporation, and Acquisition Solutions, Inc.
- ◇ Using the Internet to post requests for information or to search for technical information.
- ◇ Reviewing government-managed Web sites that provide information on products and pricing (often available from existing Government contracts). (See enclosure.)

How does market research relate to a feasibility study?

One of the main purposes of market research is to establish feasibility. Sometimes called a feasibility study, this part of market research determines if technology exists that can satisfy the requirement. Issues of feasibility involve three aspects: the technical, operational, and financial feasibility of the project.

Technical feasibility refers to the capability of current technology and methods of operation in meeting user requirements. Technical feasibility should include consideration of the state of the technology — for example, is the technology “leading edge” (with commensurate risk) or is the technology “mature” (with associated industry standards and lesser risk). Operational feasibility refers to the ability of the enhanced system to fit the operational pattern and resources of the organization. Financial feasibility refers to the ability of the organization to fund the acquisition.

The Office of Management and Budget (OMB) addresses feasibility in terms of risk.⁵ The issue facing agencies is now this: *What is the technical feasibility and risk of the project?* Risk may be in such terms as maturity of the market, size and scale of project, and anticipated acceptability of the technological solution to customers and stakeholders. So it is important to consider technical feasibility in today’s terms — in terms of risk. This may be done independently or as part of the market research and analysis of alternatives.

How is market research information used?

The results of the market research in large measure decide the acquisition approach and should be documented in a manner appropriate to the size and complexity of the acquisition. It is important to keep in mind two important factors. First, the results of the market research may be used in subsequent acquisition documents, such as the acquisition plan, requirements analysis, analysis of alternatives, and solicitation document (if applicable). Second, market research is necessary to define the requirement and the acquisition, but *it should not be applied in a manner that presupposes a solution or unduly limits competition*. Those are properly the function of the marketplace.

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Why is market research now more important than ever?

Under traditional competitive acquisitions, contractors vie directly to fulfill a specific agency need. Inherent in this process is that *contractors bring to the agency's attention products, services, and solutions that meet the need*. Agencies can rely (to some extent) on the competitive process to locate sources.

However, existing government-wide contracts (especially those for services) often were awarded months or years before, on the basis of common, but undetailed functional needs. In other words, the ordering agency's specific needs have rarely been considered. This means that the best solution may or may not be represented among the available contractors.

The implication is that *agencies must assume more responsibility for market research*. The extent of market research should be dictated by the need and scope (including dollar value) of the acquisition.

Is further information on market research available?

The enclosure to this *Advisory* lists Web sources of information related to market research. (If you have additional sources, please advise us and we will update the list for you and other *Acquisition Directions* clients.) For further information on this or any acquisition topic, please call Acquisition Solutions, Inc. ♦

Note: This *Advisory* is based in part on work done by ASI for the General Services Administration in drafting an acquisition guide, tentatively titled "A Guide to Planning, Acquiring, and Managing Information Technology Systems."

¹ FAR 10.002(a)

² See FAR Part 2

³ FAR 15.201(a)

⁴ FAR 3.104

⁵ OMB Circular A-11, Appendix 300A, "Planning, Budgeting, and Acquisition of Capital Assets" (1997)